

Budget Status



House Finance Committee
November 18, 2010

Introduction

- State is still facing major budgetary problems
- Focus is on overall fiscal situation for current year, budget and outyears
 - ◆ Economy
 - ◆ Projections

Introduction

- The state is beginning its recovery from severe economic distress
- No current year deficit expected
- Facing continued budget year and outyear issues growing from about \$300 million to \$375 million

Introduction

- House Fiscal Staff Estimates
 - ◆ Use November revenue and caseload conference estimates
 - ◆ Use first quarter reports from agencies, Budget Office first quarter report, and staff estimates for FY 2011
 - ◆ Staff estimates for FY 2012 and beyond

Introduction

- ◆ The ***current year*** appears balanced despite loss of federal funds
- ◆ The ***budget and out year*** gaps are a function of both cyclical economic and continued structural issues



Economic Forecast

Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
 - ◆ It takes testimony from Moody's Economy.com
 - ◆ The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts

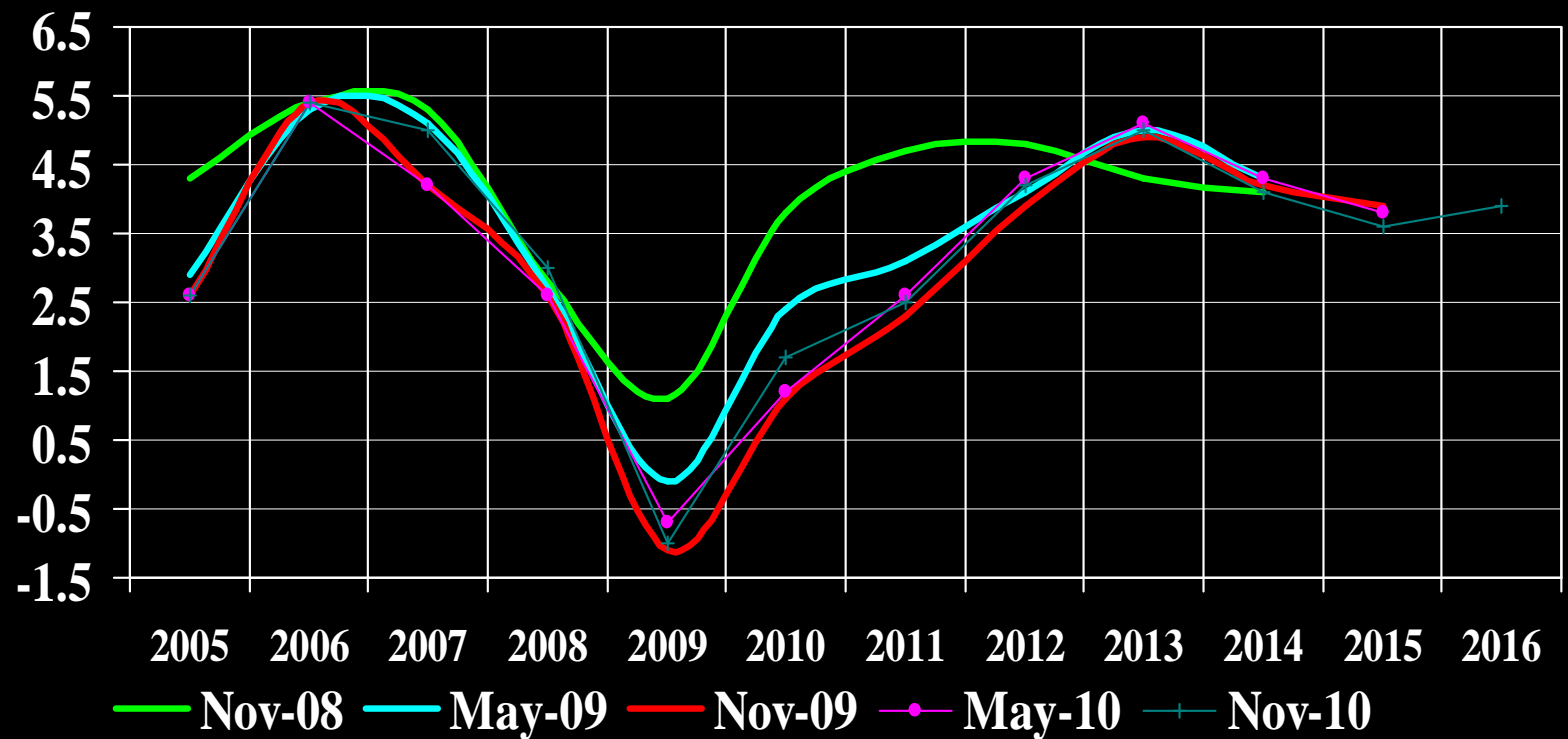
Economic Forecast

November forecast is pessimistic... but
change to May forecast is mixed

- Stronger near term personal income growth
- Stronger long term wage & salary growth
- Slower jobs recovery – job losses began in 2007 not regained until 2014

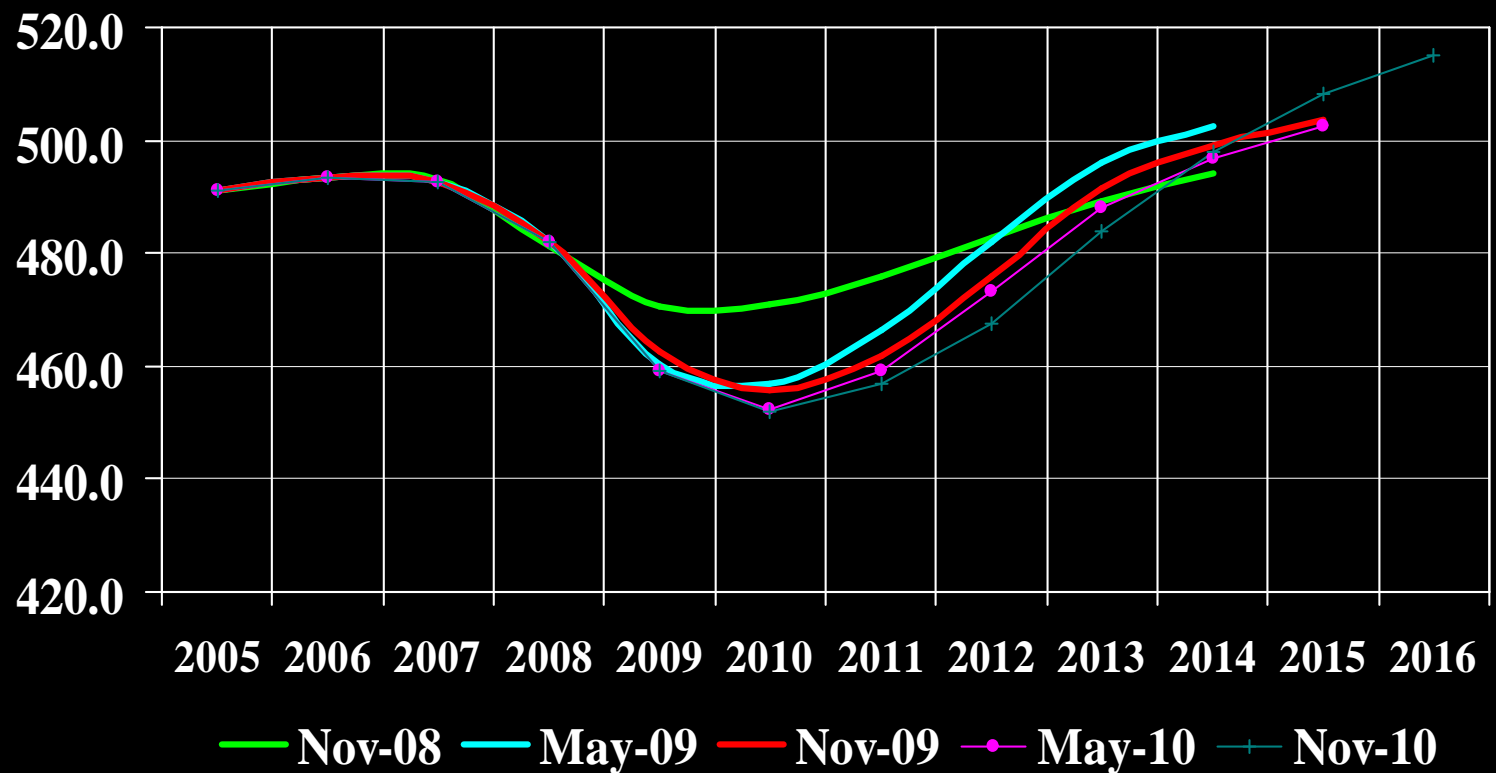
Consensus Economic Forecast

Forecast Differences - Personal Income Growth



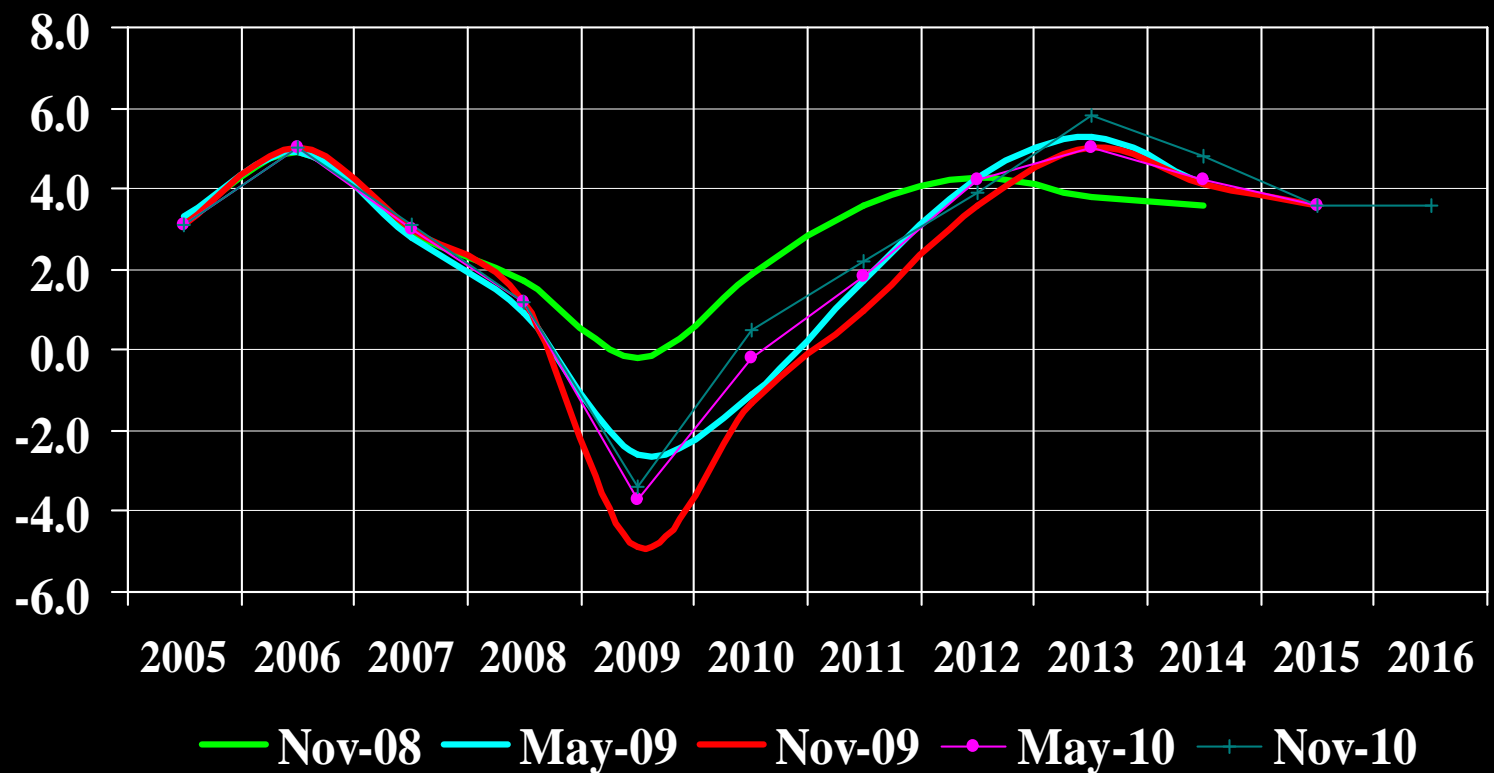
Consensus Economic Forecast

Forecast Differences - Jobs

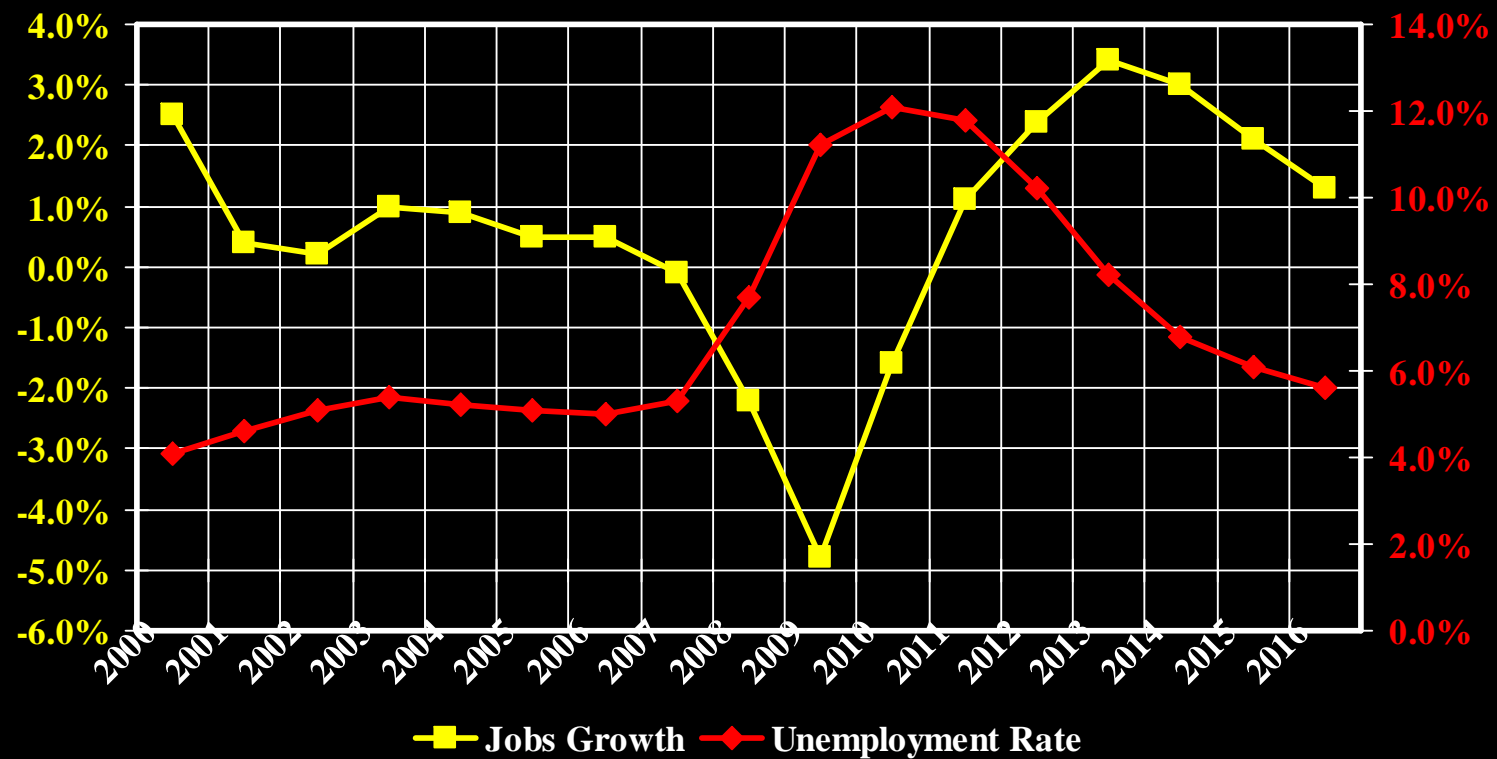


Consensus Economic Forecast

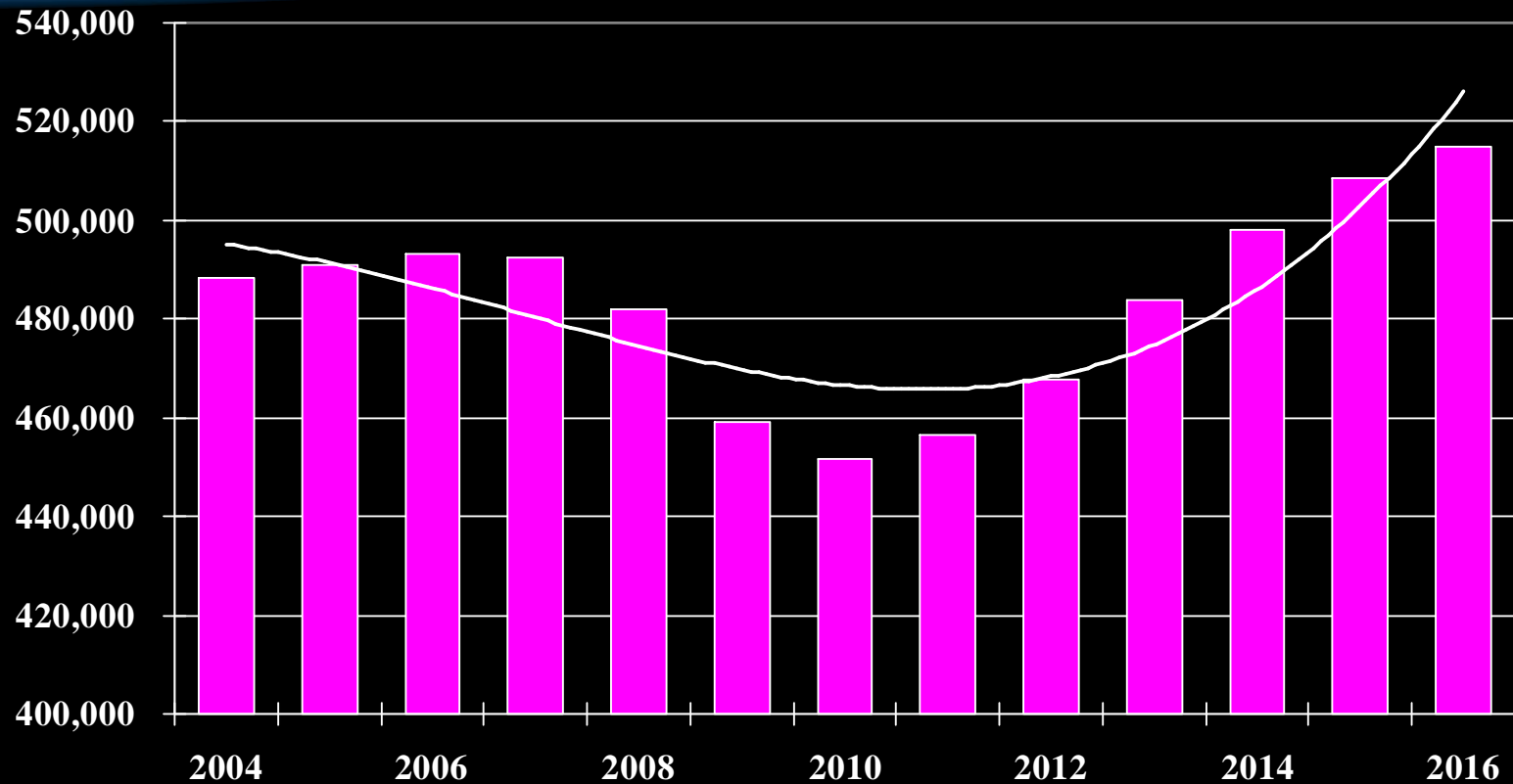
Wage and Salary Income Growth



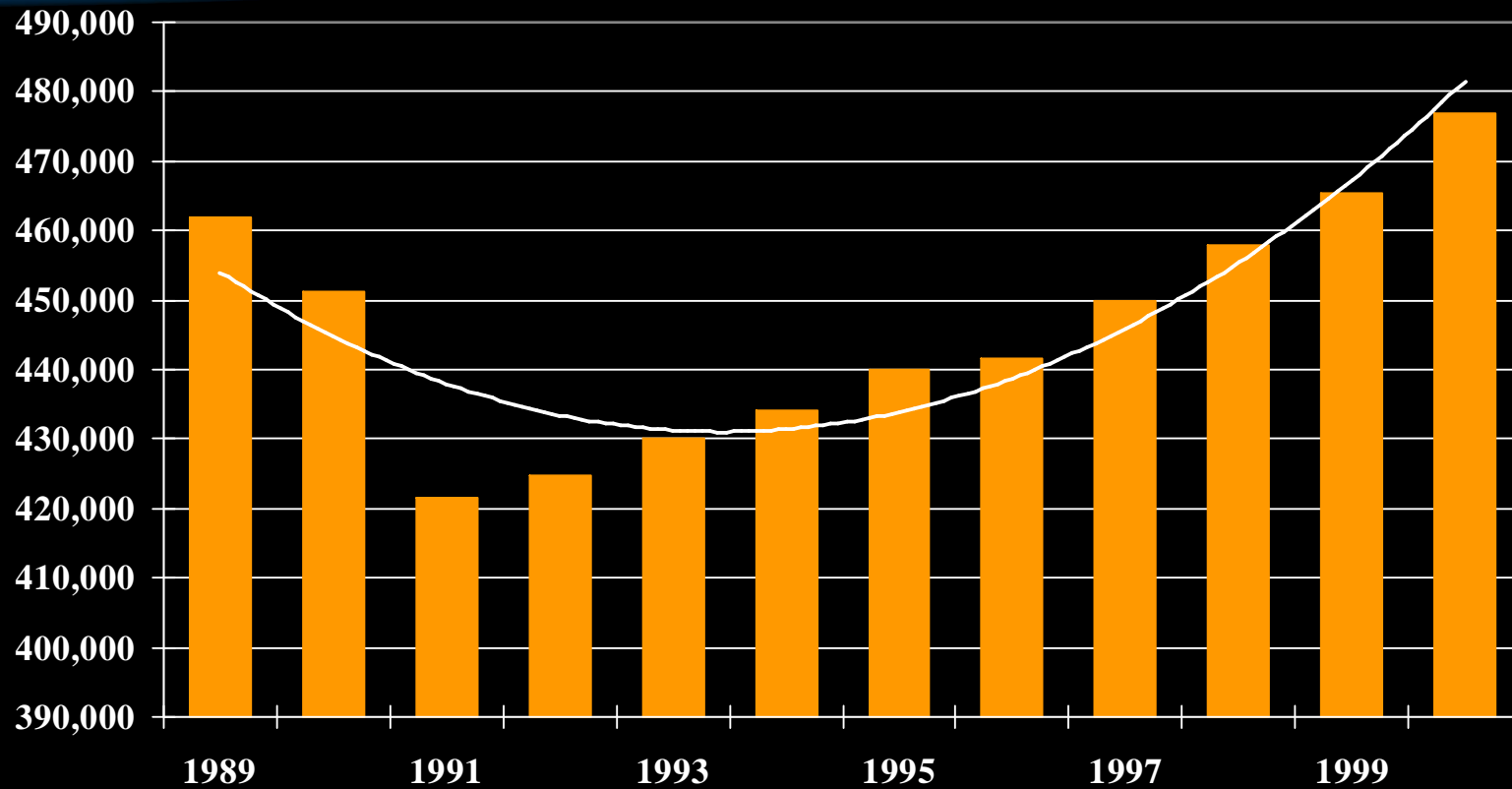
Employment – Unemployment



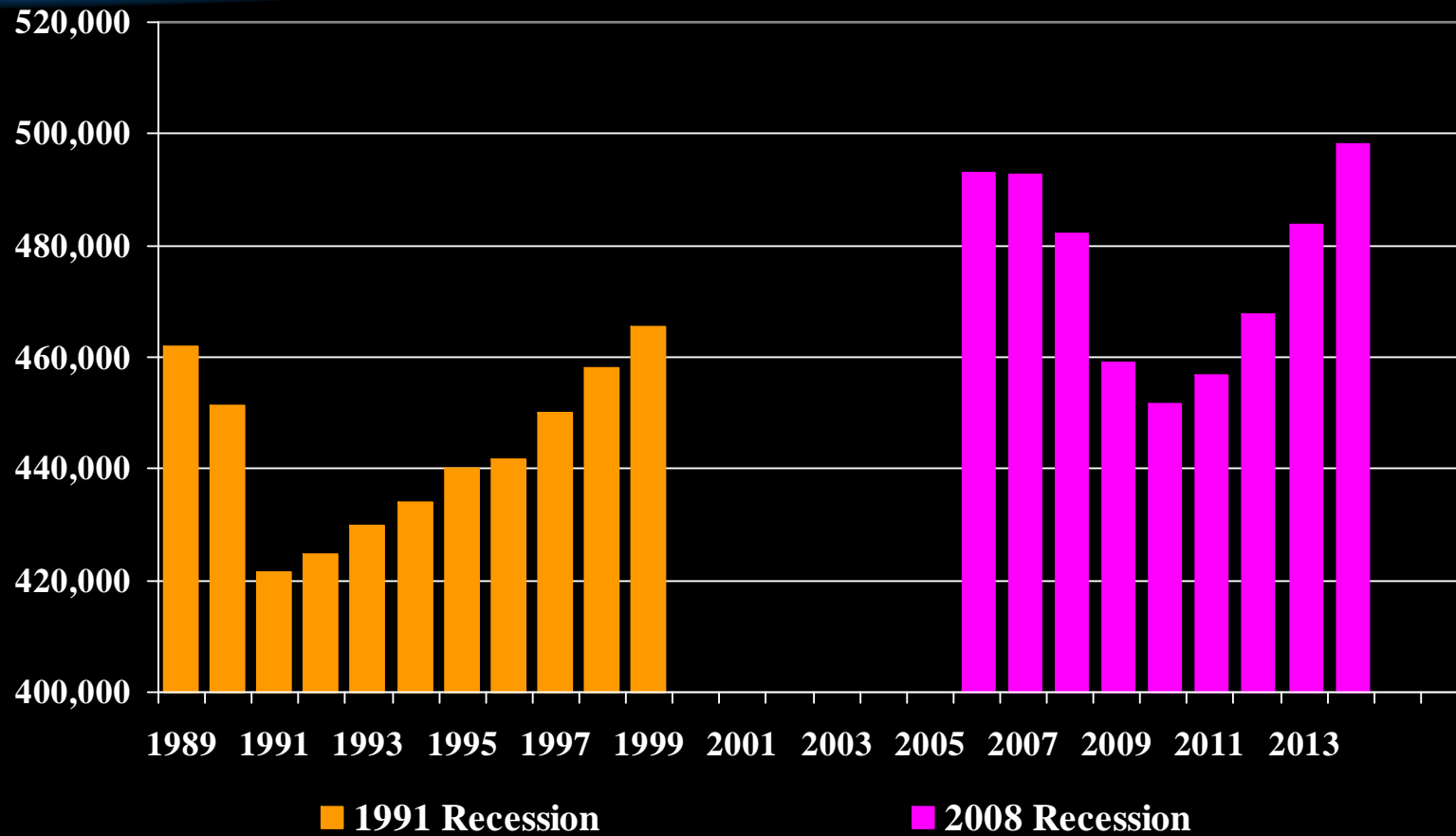
Jobs – 8 Years Peak to Peak



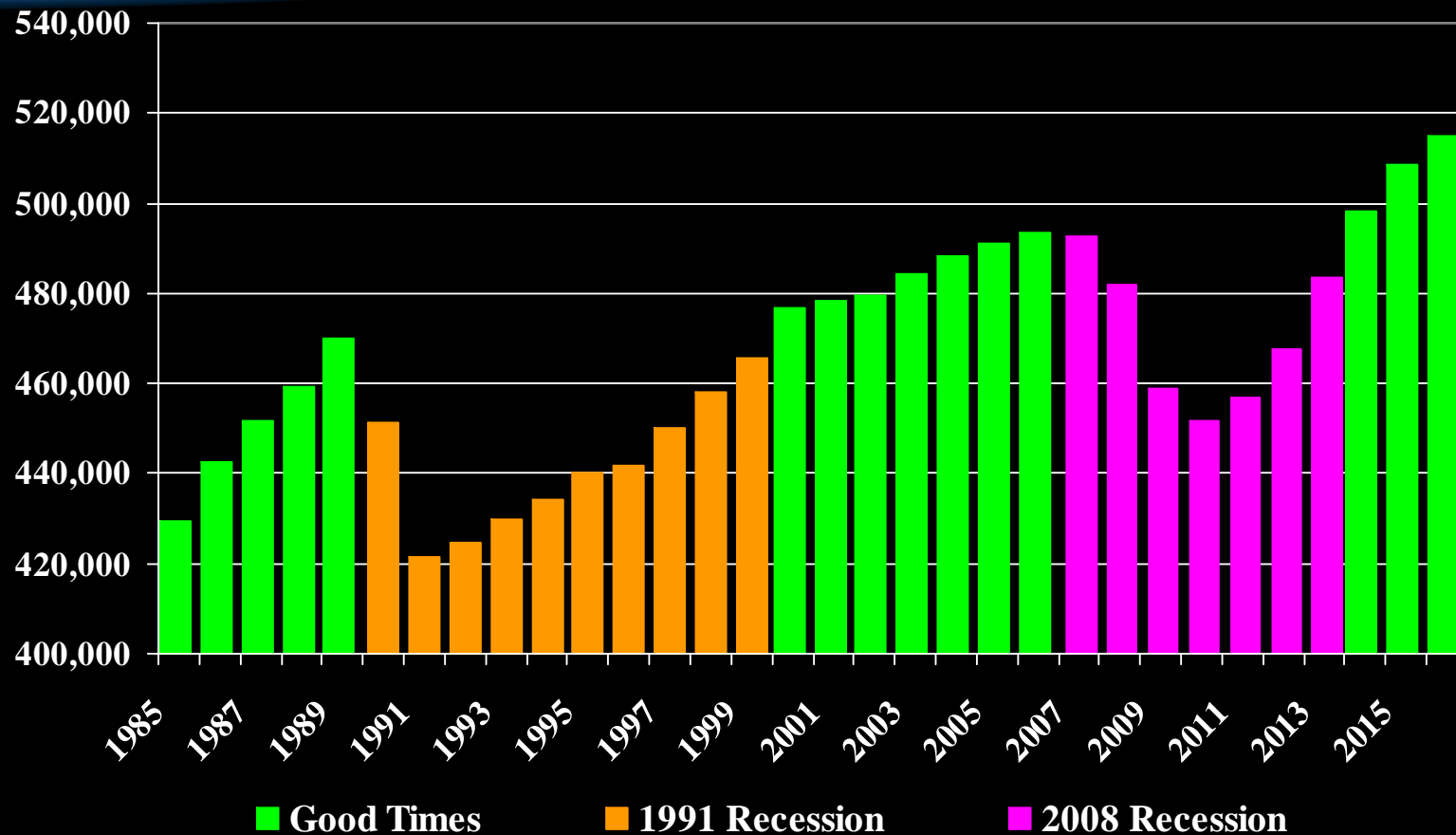
1991 – 10 Years Peak to Peak



Jobs in the Recessions

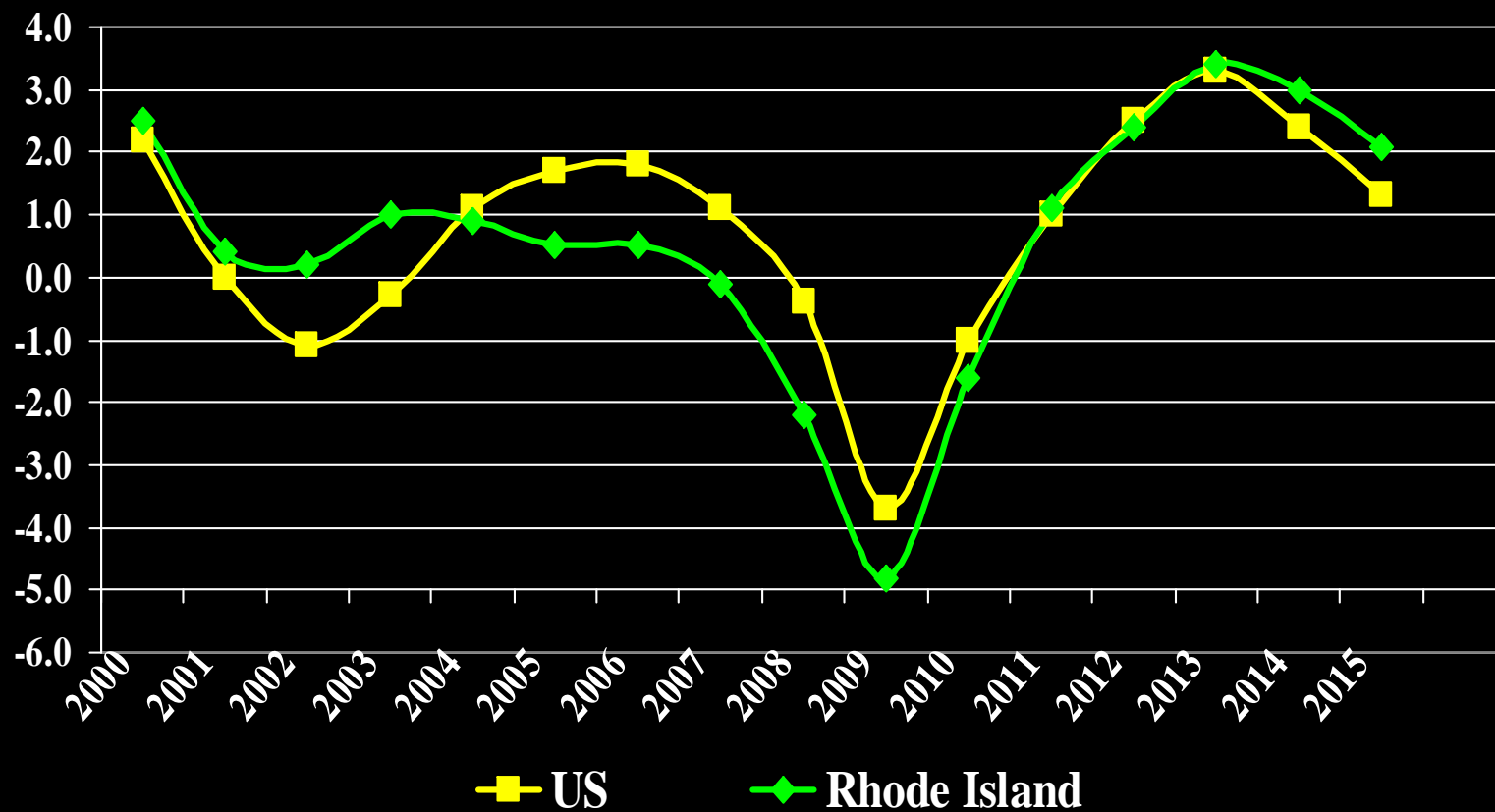


Employment History



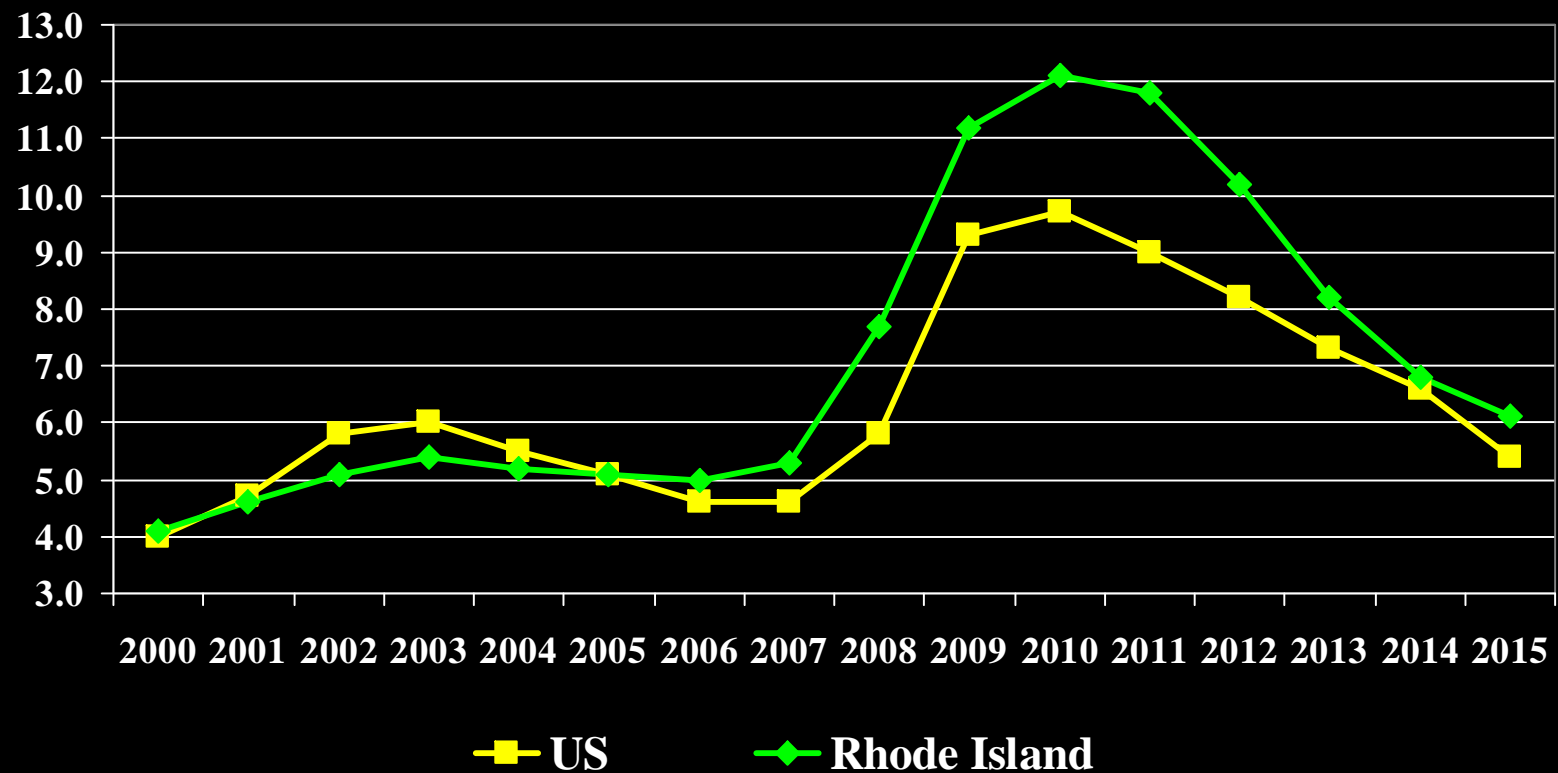
Employment Growth

Jobs Growth - RI Currently Underperforming



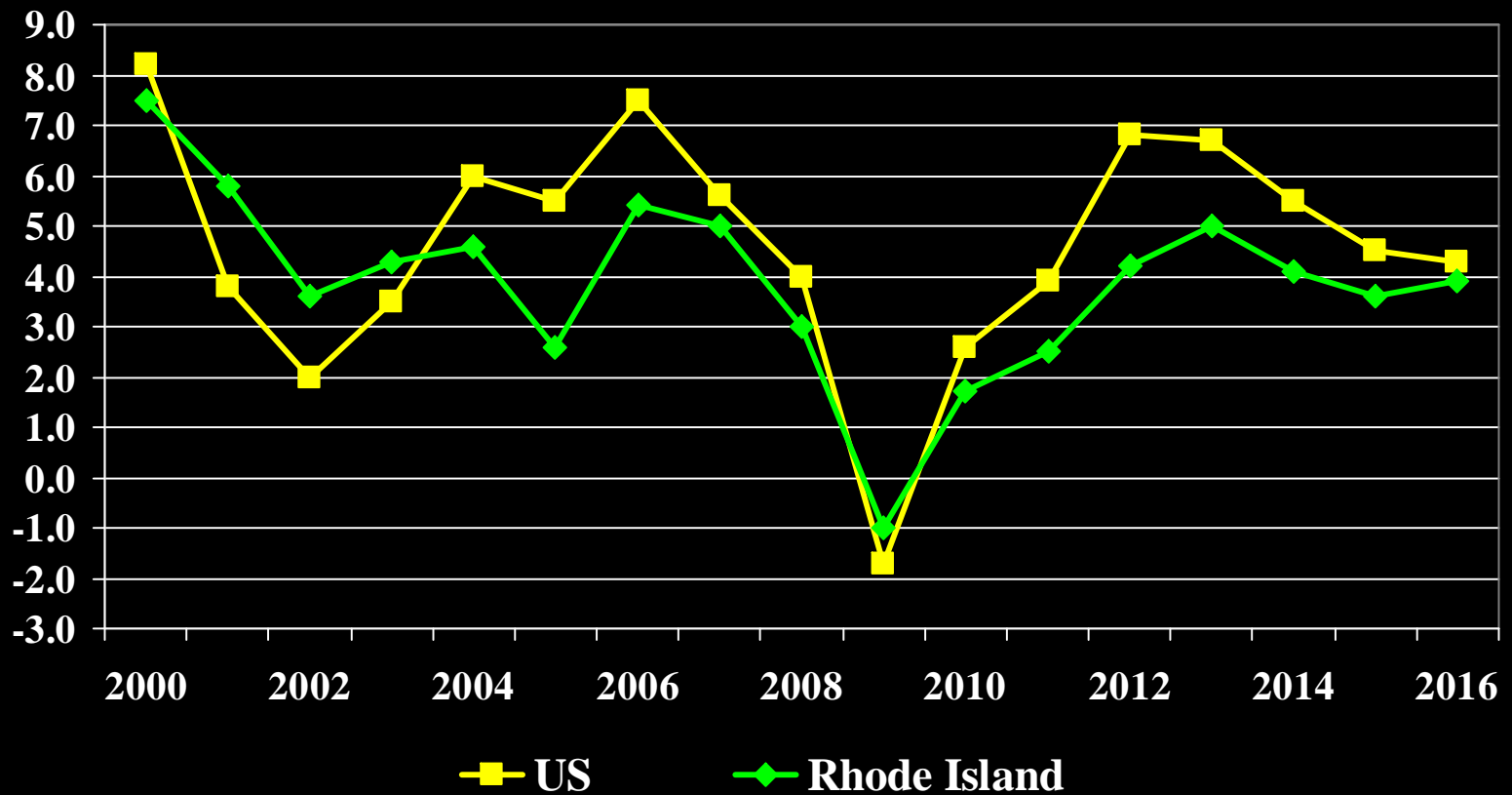
Unemployment Rates

RI has Consistently Higher Unemployment



Revenues

Personal Income Growth - RI Underperforms



Revenue Drivers





Revenues

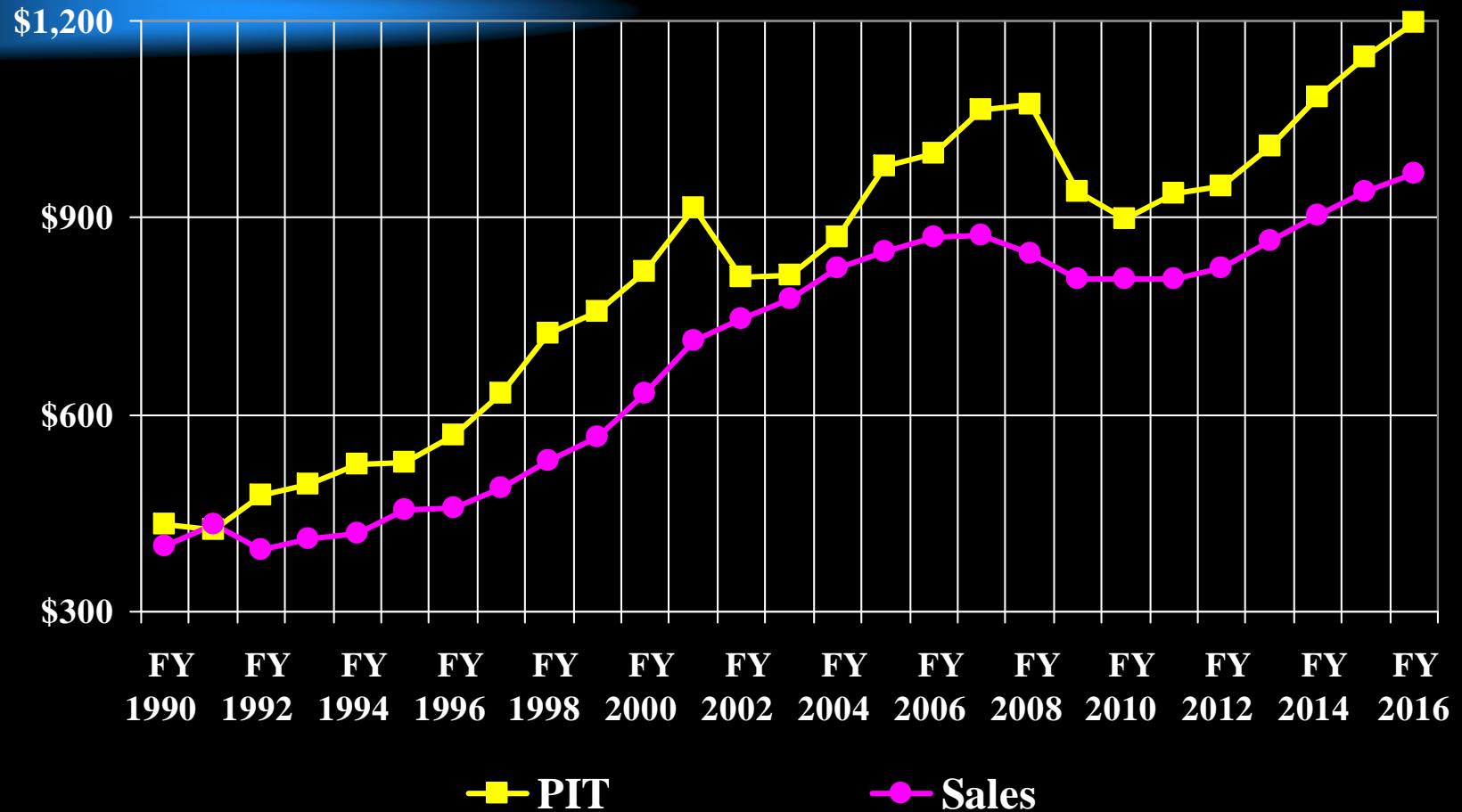
Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - ◆ FY 2010 less than anticipated
 - ◆ FY 2011 collections ahead
 - ◆ Economic forecast is for slow recovery

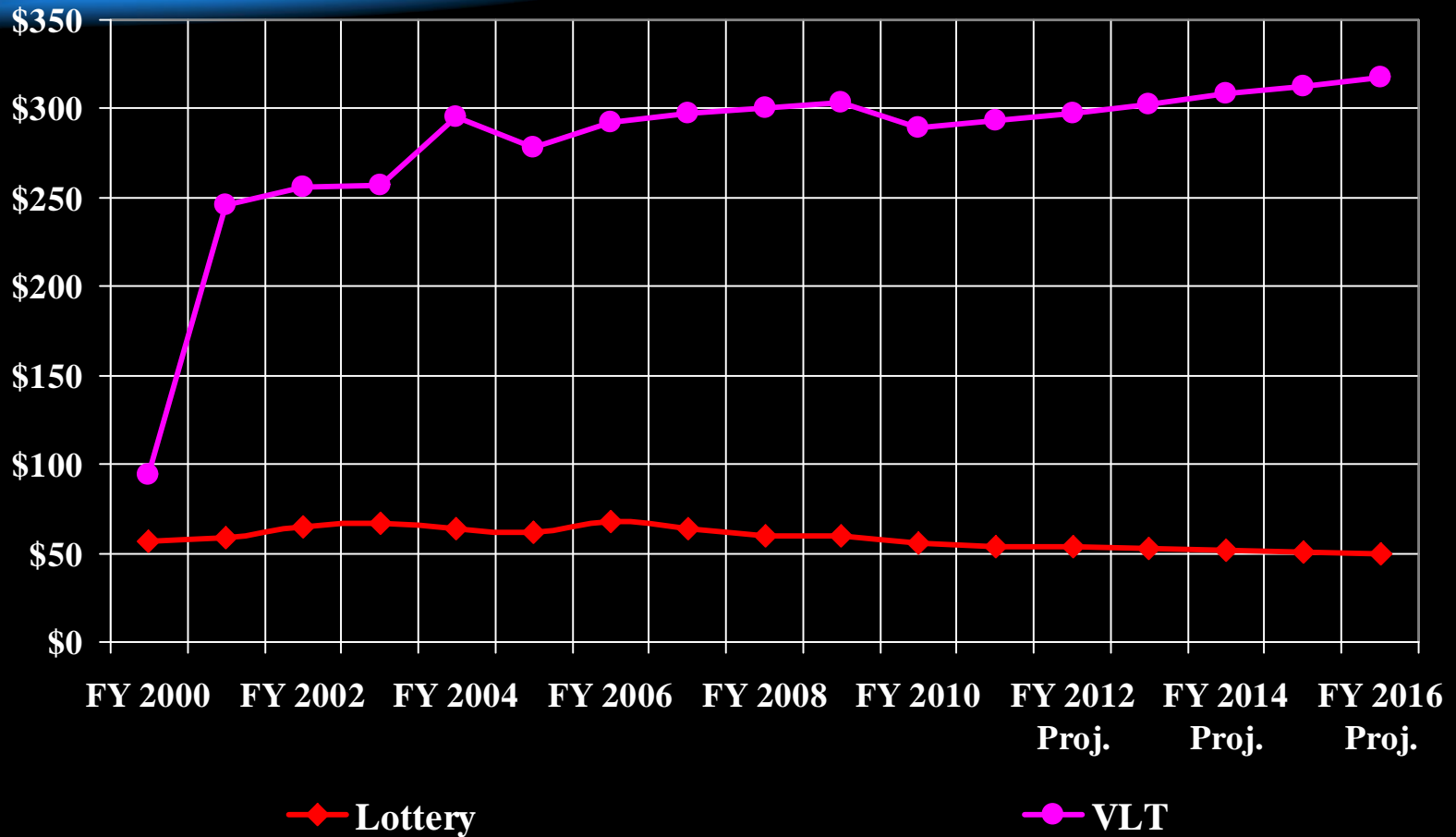
Income and Sales



Income and Sales



Lottery





Preliminary Closing

FY 2010 Preliminary Closing

- State was facing \$200 million problem for FY 2010 by this time last year
 - ◆ Largely due to revenue shortfalls in FY 2009 closing (\$60+ million) and FY 2010 estimates from November 2009 (\$130+ million)
 - ◆ Limited time to solve

FY 2010 Preliminary Closing

- Solutions
 - ◆ Local Aid reductions
 - ◆ Pension reductions
 - ◆ Advancing federal resources
 - ◆ One-time expenditure & revenue items
 - ◆ Agency reductions and initiatives
 - ◆ May revenues

FY 2010 (Unaudited)

	Enacted	Current	Diff.
Opening	\$ (61.3)	\$ (61.3)	\$ 0.0
Revenues	3,019.1	3,015.6	(3.4)
Rainy Day	(71.0)	(70.9)	0.1
Expenditures	(2,886.8)	(2,862.4)	24.4
Reapprop.	-	(3.4)	(3.4)
Free Surplus	\$ 0.0	\$ 17.7	\$ 17.7

Closing – Revenues

- Revenues down \$3.4 million from estimates
 - ◆ Taxes up \$20.8 million with strong sales and business corporation taxes
 - ◆ Income tax down somewhat

Closing – Revenues

- ◆ All other sources down \$24.2 million -
Primarily one-time payments that were not received
 - \$8.0 million in land sales that did not occur
 - \$6.0 million donation from providers of services for those with developmental disabilities did not occur
 - \$7.5 million federal funds recovery for child support enforcement expenses delayed

Closing - Expenditures

- Total spending \$24.4 million below budgeted amounts
 - ◆ Medical caseloads lower than expected
 - ◆ Higher statewide utilities savings
 - ◆ Greater teacher retirement savings
 - ◆ Staffing vacancies
 - ◆ Delayed purchases

Closing - Expenditures

- Total spending \$24.4 million below budgeted amounts – but areas of overspending
 - ◆ 9 agencies overspent
 - ◆ 16 overspent when centrally budgeted pension savings are considered
 - ◆ Appropriation lines overspent even if agency totals were not

Closing - Expenditures

- Total spending \$24.4 million below budgeted amounts – but areas of overspending
 - ◆ Unachieved initiatives
 - ◆ Unexpected expenses

Closing - Expenditures

- Unachieved initiatives
 - ◆ Indirect cost recovery
 - ◆ Savings from prison population reductions
 - ◆ BHDDH - Methadone maintenance federal match
 - ◆ DHS – Nursing home high cost case review
 - ◆ DHS – Estate recoveries

Closing - Expenditures

- Unbudgeted expenses
 - ◆ Floods – Military Staff, Corrections, DEM
 - ◆ Rose Hill landfill expense accrual
 - ◆ Facilities/Repairs - Judiciary

Closing - Expenditures

- Impact on FY 2011
 - ◆ Do savings or higher base expenses carry to FY 2011?
 - ◆ Will delayed purchases require additional funds in current year
 - ◆ Are initiatives being implemented?



Current Year

Current Year

- The *current year* has no deficit but includes unmet expenditure savings that could affect out years
 - ◆ Medicaid reimbursement shortfall resolved by revenue uptick and closing surplus and other savings

FY 2011

- Closing – September 1
- Caseload estimates - November 8
- Revenue estimates - November 10
- Agency quarterly reports were due to fiscal offices at the end of October
- Budget Office first quarter report was due by November 15

FY 2011

	Enacted	Current	Diff.
Opening	\$ 0.0	\$ 21.1*	\$21.1
Revenues	3,020.6	3,037.4	16.7
Rainy Day	(78.5)	(79.4)	(0.9)
Expenditures	(2,942.1)	(2,975.8)	(33.7)
Total FY 2011	\$ 0.0	\$ 3.1	\$ 3.1

**Includes \$3.4 million reappropriation*

Current Year

- Medicaid reimbursement, \$38.1 million lower than budgeted - largest impact to current year
- Revenues are up by \$16.7 million
- Opening free surplus up by \$17.7 million
- Added resources increase rainy day transfer by \$0.9 million
- Expenditures less of an issue but still problematic

Current Year

- Caseloads and medical down \$5.9 million
- Caseload trends, debt service and formula local aid adjustments mask size of unachieved expenditure savings
- Staff estimates differ from Budget Office
 - ◆ Teacher retirement, Legislature, others

Current Year

Reappropriation	3.4
Legislature*	(3.7)
Medicaid Match Rate	38.1
OHHS Caseload – Net of rate change	(2.1)
Debt Service – revised estimate	(2.0)
Retirement Adjustments*	(2.0)
Formula Local Aid	(2.4)
Other *	4.4

* Items different than Budget Office Q1 estimates

FMAP

- Federal Medical Assistance Percentage
- Matching rate for Medicaid
- Changes annually based on three year relative per capita personal income
- Enhanced rate extension assumed in the enacted budget –actual lower
- Enhancement over in FY 2012

Current Year

- OHHS Caseload – \$2.1 million less
 - ◆ DHS - \$5.9 million less
 - ◆ DEA - \$0.2 million less
 - ◆ DCYF - \$2.3 million more
 - ◆ BHDDH - \$1.0 million more
 - ◆ Health - \$0.7 million more

Current Year: DHS Caseloads

- Nov Caseload Conference \$5.9 million in savings – excluding \$28.3 million rate change impact
 - ◆ Medical Assistance - \$9.5 million less
 - Mainly managed care and other services offset by unachieved savings
 - Cash Assistance – \$3.6 million more

Current Year

- Medical Assistance -
 - ◆ \$5.7 million in unachieved savings
 - \$4.3 million will not contract for the medical care of nursing home residents
 - \$0.8 million from increasing estate recoveries
 - Given staff but only recently hired

Current Year

- DHS – Cash Assistance
 - ◆ Add \$3.6 million
 - Additional child care costs - \$2.1 million
 - Unachieved savings - \$1.5 million

Current Year

- Unachieved savings - \$1.5 million:
 - ◆ \$1.1 million from delay in state takeover of state SSI payment
 - Budget assumed 10/1/10 start
 - ◆ \$0.2 million - delay new SSI category
 - ◆ \$0.2 million - delay DMV data check initiative

Current Year: OHHS Caseload

- BHDDH -\$3.9 million general revenue saving from 2 Global Waiver Changes
 - ◆ Establish a behavioral health safety net - \$4.0 million all funds; \$1.4 million general revenues
 - ◆ Restructure the provider network - \$7.0 million all funds; \$2.5 million from general revenues

Current Year

- BHDDH

- ◆ Behavioral Health Care Safety Net:
 - Instead implemented an across the board rate reduction to community mental health
 - Department projects to achieve the same savings
- ◆ FY 2010 Overspent in this area by \$2.0 million all funds, \$0.6 million gen. rev.

Current Year

- BHDDH

- ◆ DD Provider Network with lead agency:

- Did not implement this change
- Instead eliminated daily rates & will implement further rate reform in Spring 2011
- Department projects to achieve the same savings

- ◆ Historical review suggests this is optimistic

Current Year

- Developmental disabilities community based services
 - ◆ Last year Department and Budget office projected \$1.0 million general revenue deficit in the first quarter report
 - ◆ Revised budget added \$16.6 million added, \$6.0 m from gen rev – offset by donation assumption

Current Year Deficit

- Developmental disabilities community based services
 - ◆ FY 2010 preliminary - \$195.8 million from all funds
 - Overspent by \$6.7 million all funds; \$2.0 million general revenues

Current Year

- DCYF

- ◆ System of Care Transformation - unachieved savings of \$6.7 million
- ◆ Savings of \$4.4 million from caseload trends offset the loss

- Health

- ◆ \$0.7 million for HIV/AIDS program
- ◆ Budget Office assumes \$1.2 million

Current Year

- Debt Service \$2.0 million lower than enacted
- Teacher Retirement \$3.8 million lower from base change from FY 2010 – not reflected in Budget Office report
- Other retirement \$1.8 million higher from calculation error in the enacted budget

Current Year

- Formula Local Aid – \$2.4 million less
 - ◆ School Construction Aid \$2.8 million less – not all projects done by June 30 deadline
 - ◆ Charter Schools \$280,000 more estimated adjustment for actual enrollments
 - ◆ Group Home beds \$30,000 more

Current Year

- Other - \$4.4 million more
 - ◆ All other projected adjustments to agency expenditures
 - ◆ Unachieved indirect cost recovery savings
 - ◆ RIBCO settlement largely offset by other changes

Current Year

- Other - \$4.4 million more
 - ◆ Legal expenses for Central Falls receivership
 - ◆ Includes additional medical examiner funding, flood funding \$ 0.0
 - ◆ Veterans home expenses
 - ◆ variety of other adjustments



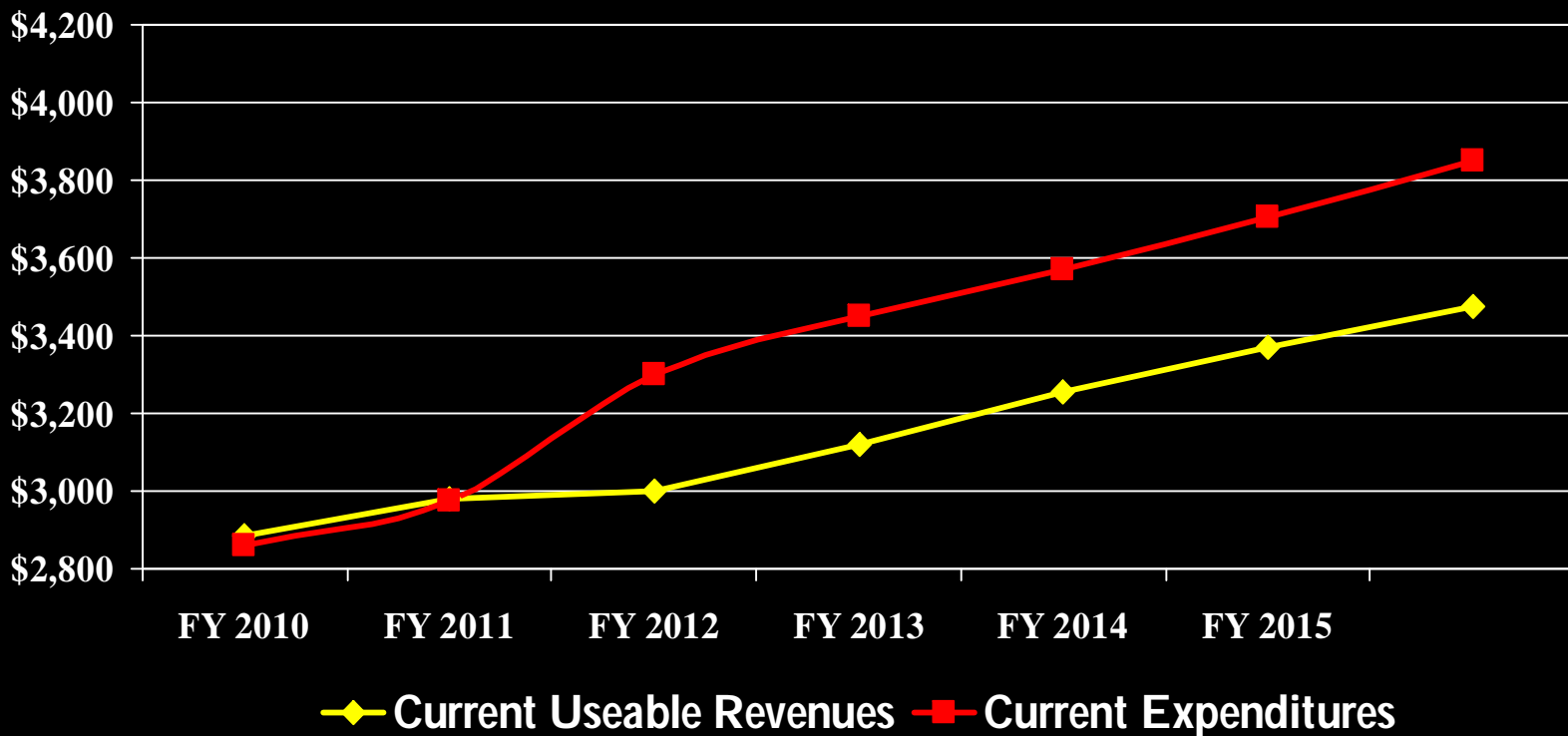
Budget Year and Outyears

Budget Year and Outyears

- There are also *budget year* and *outyear problems*
 - ◆ The budget year likely has a gap of \$300 million
 - ◆ That gap grows in the out years to \$375 million
 - ◆ Somewhat lower than Fiscal Staff estimates in June

Budget and Out Years

Revenues vs. Expenditures - Current Estimates



Budget Year and Outyears

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Stimulus funding ameliorated recent pressures -\$240 million “cliff” in
- It did not remove them

Budget Year and Outyears

- Potentially unsustainable expenditure structure
 - ◆ The stimulus package exacerbated the outyear problem
 - ◆ Enacted structural changes not implemented
 - ◆ Growth rates exceeding revenue growth rates

Growth Rates

Item	Est. Annual Growth
Jobs	2.5%
State Personal Income	5.0%
Taxes	3.8%
Total Revenues	3.1%
Total Expenditures	5.3%
Salaries & Benefits – 25% of total	4.7%
Medicaid – 22% of total	7.9%

Budget Year and Outyears

- Budget Office Instructions based on \$318.8 million deficit projection
- Agencies asked to submit budgets that both reflect true current service expenses and options for reductions up to 15 percent
- Reductions appear to represent \$452 million from Budget Office current service estimate

Budget Year and Outyears

- Agencies have not all submitted budgets
- Recent experience suggests many proposals submitted are not viable or of overstated value
- No longer have stimulus MOE requirements
- But major reductions to local aid and other areas limit options



Summary

Summary

- Current year appears balanced with caveat about unachieved savings
- Major budget and out years gaps
 - ◆ Slow growing economy
 - ◆ Structural tax and expenditure issues
 - ◆ Staff continuing work on estimates